MINUTES

MONTANA SENATE
59th LEGISLATURE - REGULAR SESSION

COMMITTEE ON ENERGY AND TELECOMMUNICATIONS

Call to Order: By **CHAIRMAN KEN TOOLE**, on March 17, 2005 at 3:00 P.M., in Room 317-C Capitol.

ROLL CALL

Members Present:
Sen. Ken Toole, Chairman (D)
Sen. Brent R. Cromley (D)
Sen. Aubyn Curtiss (R)
Sen. Jeff Essmann (R)
Sen. Dan Harrington (D)
Sen. Dave Lewis (R)
Sen. Greg Lind (D)
Sen. Dan McGee (R)
Sen. Gary L. Perry (R)
Sen. Glenn Roush (D)
Sen. Carol Williams (D)

Members Excused: None.

Members Absent: None.

Staff Present: Casey Barrs, Legislative Branch
Claudia Johnson, Committee Secretary

Please Note. These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Hearing & Date Posted: None.
Executive Action: None.

Informational Hearing on Gas and Oil

Presentations by:

David Gates, Vice President for Transmission Operations, NorthWest Energy Company (NW)

John Alke, representing Montana Dakota Utilities (MDU)

Jeff Blend, Environmental Economist, Department of Environmental Quality (DEQ)

Marla Larson, Staff Economist, Public Service Commission (PSC)

{Tape: 1; Side: A}

David Gates, Vice President for NorthWestern, opened the hearing on NW's transmission systems of natural gas in Montana. He distributed a handout for the Committee to follow on his power point presentation. He gave background information on NW's system. There are 2,100 miles of natural gas transmission pipeline in Montana, 130 city gate stations, and 12 compressor stations with 42,000 installed horsepower for delivery. He discussed gas pipeline inter-connects, and access with Canada. He talked about the natural gas storage facilities located in Montana, and its deliverability. The storage facilities provide peak day deliverability, seasonal supply, and annual supply, etc. He discussed core and non-core working gas, and the pressure it requires to flow out. He talked about the 10 year growth rate in natural gas usage of Montana's main towns. He said that Montana has more gas in storage this year compared to last year at this time, yet the prices keep going up. He informed the Committee that the economist will explain the reason for this. He stated that Montana's natural gas storage is very well utilized. He gave a comparison of natural gas reserves in Montana in comparison with world reserves.

EXHIBIT(ens59a01)

John Alke, representing MDU, gave an overview on MDU. He talked about MDU rate setting components of natural gas. He said that MDU's market is bigger than Montana Power (NW). MDU sells approximately 35 bill cubic feet (Bcf) per gas annually in their four state service territory. MDU transports about 10 Bcf per year. He stated that all of MDU's gas is traditionally produced in MDU's territory. Historically, 10 percent of the gas that MDU sells comes from either company owned production or affiliate companies. MDU purchase gas from oil and gas producers in the field. MDU also purchases what is called, associated gas, which is from oil production in MDU's service area. He stated that MDU is proud of the fact that they sell solely domesticated gas. He discussed the gas prices in the mid-1970s, when gas became regulated. The supply of gas in MDU's storage service territory became impaired, and MDU had to have a public gas curtailment plan developed. He talked about the FERC developing the plan for MDU. The primary target for the plan was the large industrial customers. He discussed the federal Natural Gas Policy adopted in 1978, and the new gas production rose to unheard of prices. In the late 1980's, the federal government deregulated all gas. He talked about MDU stopping production on transmission of natural gas in the mid-1980s, and do not have transmission at this time. He discussed MDU becoming regulated by the PSC, who isolated MDU's system in all the towns that MDU services. He talked about the federal government mandating all pipelines of common carriers. He said that until that time, the major purchaser of natural gas was the pipeline companies, who provided and sold gas to the distribution companies. It was determined that wasn't the appropriate way to handle this, so all pipeline companies were moved over to common carriers. Now the transactions of buying and the selling of gas occurs in the field where it is produced, rather than going through a pipeline company. He stated that the rule of thumb is; the retail rate that MDU charges its customers is approximately 80 percent of the retail rate, which is the cost of gas; and 20 percent is the cost of distribution, and gas regulation by the PSC.

Mr. Alke compared MDU to NW, stating that NW is a open access system under state law. MDU is not a open access system based on state law, because MDU separated itself from interstate pipeline companies in the 1980s. He said that MDU considered they were open access, because of a pipeline that was supplying gas to MDU, and they were under NAFTA.

He talked about the changes of the rates in the last five years, which wasn't the result of labor and construction at distribution sites, but the phenomenal changes of the distributers rates in the field. He talked about the CIG Index, a major pipeline company in Colorado, who transported gas from Montana to Denver, and selling it to the California market. He distributed a handout showing MDU's index prices on natural gas. He talked about the index showing the price of gas in the various years from 1992 to 2005.

EXHIBIT(ens59a02)

Jeff Blend, Economist, DEQ, informed the Committee he will be speaking about the natural gas prices in Montana. He said that most of Montana receives a majority of its natural gas from Alberta, Canada, with the exception of NW. He said this means that the price of natural gas in Montana is tied to the price of natural gas in Alberta. Alberta has one of the largest natural gas price index (AECOC), and their prices follow the main U.S. price indexes, such as the Henry Hub. Montana is essentially a part of a national gas market. What happens to gas in one part of the nation affects what happens in Montana.

He gave statistics on natural gas facts. He said that most of Montana's produced gas comes from the north-central portion of the state, and most of this is exported. And, Montana imports most of the gas it consumes. He said that approximately two-thirds of that consumption is on the NW system. He added that MDU is the second largest gas provider serving the eastern third of the state. He talked about Montana becoming more and more connected to the national market, and will likely see higher and more volatile gas prices than historical norms, because the North American prices are higher and more volatile than the norm.

{Tape: 1; Side: B}

Mr. Blend discussed major current issues in Montana's natural gas. He said that the increase in price of natural gas from 2002 to the present has affected Montana residents; such as, schools and businesses, e.g., refineries switching fuels, K-12 schools short of energy funding, and LIEAP requests are higher. He talked about the gas fired electricity generation that was planned to be built in Montana, and isn't finished yet with the exception of Basin, near Butte. He said that the lack of building facilities, ties in to the high gas prices and corporate issues. He stated that the national trends are in natural gas-short term and long term contracts.

Mr. Blend discussed the history of gas prices up to the present time. He said that gas prices in Montana were relatively low compared to the rest of the U.S. until the 1980's. Delivered prices to residents were in the $5-6/Dkt (dekatherm) range in the 1980's and 1990's, which was still low compared to the rest of the nation. In 2000, the gas prices went up in the U.S. to $8/Dkt. Then the price dropped down in 2001, then began climbing back up in 2002. Delivered gas prices in Montana today is in the $9-10/Dkt range and still rising. He explained that the gas price increase in Montana is due to the increase in gas itself. He talked about the delivered price of gas = the price of gas itself, plus transmission fees, plus delivery fees, plus other fees, such as; storage. He feels that gas prices will go down in 2006, to the prices in the early 1990's, because of adjustments made by everyone.

Mr. Blend talked about why gas prices are so high today. He said the increasing demand in the U.S./North America for electrical generation and industrial use, has a 1-2 percent demand growth per year, and is expected to about 50 percent demand growth total by 2025. He stated there is a tight supply; lower discoveries per well, and higher costs for drilling in the lower-48 than historical norms. Imports to the U.S. is falling, and lower than expected production levels for Alberta produced gas. He stated that some of the bigger supplies, such as; Alaska, is not fully available at this time, and the recent high oil prices are driving up demand for natural gas. He added that the gas prices will come back down with market correction; the higher gas prices will decrease the demand on gas; and the U.S. will obtain new sources of natural gas. He stated that the Alaskan gas supply is expected to alleviate tight market conditions in a few years, due to the higher gas prices. He concluded that the increased gas price volatility could lead to increased investment by utilities in alternative energy generation, and increased reliance on long-term gas contracts.

EXHIBIT(ens59a03)

Marla Larson, Staff Economist, PSC, distributed written testimony, and explained her views on natural gas markets and its demands. She informed the Committee that Enron was a manipulation of the gas market, and a company called Dominion, had sent the wrong data file (human error), which affected future prices. She talked about the demand affected by growth in population and the number of households, income growth, substitution for other fuels, and new housing construction. She talked about the demand from the commercial sector; such as, retail, restaurant, local, state and federal government, etc. She said that the industrial and manufacturing sector is the largest sector in terms of consumption, but it did decline by 4.9 percent between 2002-2003. She said that demand for gas used to be responsive to weather, but that is changing.

Ms. Larson gave an example of a project that was approved by the Minnesota Legislature in 2001, which allowed for cost recovery of retrofit costs. Minnesota converted two of their three retrofit coal-fired plants to natural gas. The High Bridge Plant in St. Paul, was replaced with high-efficiency, combined cycle NG combustion turbine. It reduced the nitrogen oxide by 97 percent. The plant expects to be on-line by May of 2008.

Ms. Larson talked about the supply of natural gas, and how it has declined in domestic production since 2001, despite high prices and the increased number of drilling rigs. Production has declined in the Gulf of Mexico and Michigan, but has been offset by the increased production in the Rocky Mountain States and Texas.

Ms. Larson discussed the Alaskan Natural Gas Pipeline Act, which is a part of the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriation's Act. The pipeline will carry gas to California and Nevada. She also talked about the Kerr River Pipeline that was built in 2003, and will move natural gas from Wyoming to California.

EXHIBIT(ens59a04)

ADJOURNMENT

Adjournment: 5:00 P.M.

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SEN. KEN TOOLE, Chairman

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CLAUDIA JOHNSON, Secretary

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Additional Exhibits:

EXHIBIT(ens59aad0.TIF)